



## DEPARTMENT OF STATE

Washington, D.C. 20520

Executive Registry

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February 26, 1982

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TO : OVP - Mrs. Nancy Bearg Dyke - 8205054  
 NSC - Mr. Michael Wheeler - 8205055  
 DOD - COL John Stanford - 8205056  
 JCS - LTC Edward Bucknell - 8205057  
 CIA - [redacted] - 8205058  
 USTR - Mr. Richard Heimlich - 8205059  
 Treasury - Mr. David Pickford - 8205060  
 Commerce - Ms. Jean Jones - 8205061

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SUBJECT: Small Group Meeting on the Proposed Buckley Mission  
 to Europe, February 24, 1982

Summary of Conclusions

The Small Group of the Poland SIG discussed a draft terms of reference for the Buckley high-level mission to Europe. State, Defense, and the NSC tabled draft TOR texts. On certain points no consensus was possible, but the TOR text attached was developed as the basis for further discussion in the NSC.

Action Assignments

Treasury was requested to provide further detail on credit curbs and default. Two papers listing topics to be addressed were passed out as a guide to the work. They are attached.

Commerce is requested to provide an assessment of the restrictions now being discussed among the Europeans as well as information on other products that they might include.

*L. Paul Bremer, III*  
 L. Paul Bremer, III  
 Executive Secretary

NSC review completed - may be declassified in full

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State Dept. review completed

## Terms of Reference for High-Level USG Mission to Europe on Soviet Sanctions

### Rationale for Mission

-- An historic opportunity exists to weaken the Soviet Union substantially by taking advantage of its economic and financial situation through reducing the flow of resources from West to East.

-- Our allies must be given new incentives to induce them to participate in a useful program before the USG is forced to take further unilateral measures with possible negative impact on the alliance.

-- Measures to curtail Soviet access to hard currency are essential for the Administration's program for closing the gap between U.S. and Soviet military investments and for creating conditions conducive to greater security and genuine arms control. U.S. public sentiment in support of additional sanctions is quite strong and may be manifested by private sanctions.

### Assumptions

-- The Siberian pipeline can perhaps be delayed beyond normal construction delays and made more costly to complete. It cannot be stopped at this point by U.S. coercion without incurring intolerable diplomatic costs. However, by working with the Dutch and Norwegians and through an alternative energy program, we can lessen the growth of European energy dependence on the Soviet Union.

-- It is in our long-term interest and that of our allies to get them to reduce or cut off new official credits and

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guarantees to the USSR and to restrain the flow of financial resources to the USSR.

### Objectives

To begin negotiations to get the allies:

-- To cut off or severely limit and make more expensive medium- and long-term official and officially-guaranteed credits to the Soviet Union.

-- To reduce Soviet exports of non-essentials to the West.

-- To limit European dependence on Soviet energy.

[-- To make clear that we define their offers not to undercut our sanctions to include subsidiaries and licensees of our companies in Europe.]

### Means

-- By proposing an agreement that medium- or long-term official or officially-guaranteed credits to the Soviet Union will be restricted or the cost increased, to be negotiated at a conference in Washington. The conference would also consider measures to counteract the impact on the financial markets were here to be a partial or bloc-wide default.

-- By convincing our allies to participate with us in a program of raising tariffs, and/or imposing quotas on non-essential Soviet exports, or by other means, to restrict allied imports of these items.

-- By stressing the importance of a package of European energy security alternatives.

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~~[- To obtain~~ <sup>By obtaining</sup> European agreement not to interfere with extension of U.S. export controls to cover equipment manufactured by foreign subsidiaries of U.S. companies and by foreign licensees of U.S. companies operating under technology transferred prior to December 30, 1981.]

#### Make-up and Timing of Mission

The mission will be led by Under Secretary of State James Buckley and will include Under Secretary of Defense Fred Ikle, Under Secretary of Commerce Lionel Olmer, Assistant Secretary of the Treasury Marc Leland, Director of Policy Planning of the National Security Council Staff Norman Bailey and a limited number of aides.

At this time, it is proposed that the mission leave in approximately a week to ten days after the terms of reference have been approved by the NSC; and visit Rome, Bonn, Paris and London, in that order. The Embassy in Tokyo will be kept fully informed and the Japanese Government asked to participate fully in all measures agreed upon.

#### Definition of Success

Success of the mission ~~is defined as follows:~~

-- Agreement on a Washington conference on credit limitation and default consultation to meet before the end of March.

[-- Agreement to define their promise not to undercut our sanctions as involving not interfering with extension of our controls over subsidiaries and licensees of U.S. companies.]

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-- Agreement by allies to raise their tariffs or establish  
quota restrictions on Soviet ~~luxury~~ <sup>for essential</sup> exports.

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We need to push forward quickly on staffing out completely how the High Level Mission to Europe should handle the issue of restricting credits to the Soviet Union. Following are areas in which we believe staff work should be completed:

1. The impact on the USSR of a cessation of new official export credits and guarantees to the Soviet Union:
  - (a) impact of cessation of official new export credits and guaranteed credits;
  - (b) impact of cutting off official credits and guarantees on private credits;
  - (c) total impact on USSR of cessation of new official and guaranteed credits plus the reduction in private credits that would result.
2. Impact of cessation of new official credits and guarantees to USSR on individual European countries. How they would likely react? Differential impact among European countries, e.g., how trade would be affected and unemployment?
3. What other proposals can we make on credits?
  - (a) Steady reduction (in nominal terms) of official export credits and guarantees from 1981 base?
  - (b) Quantitative restrictions on official export credits and guarantees to the Soviet Union?
    - (1) How to define quantitative restrictions?
    - (2) Could they be differentiated to equalize impact among European countries?
  - (c) Would it be possible to target restrictions on official credit and guarantees to USSR to certain sectors, e.g. the energy sector.
4. At which point, and in what context, should we propose raising interest rates?
  - (a) What is the impact on USSR of raising to market level?
  - (b) What is impact of phased increase to market level?
  - (c) Is there an interest rate below market level that inflicts significant cost on Soviets?
5. What legal and regulatory authority do European governments have to cut off new private credits, to phase them out, or to place quantitative restrictions on new private credits.

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Preliminary Discussions on How to Avoid Disruption of Financial  
Markets In Case of Polish Default

The High Level Mission to Europe will need to be well prepared for its preliminary discussions on how to avoid financial disruption if a default is declared. The following questions need to be explored:

- 1) Our assessment of the impact on liquidity of the banks of major European countries. Is this a danger to continued effective functioning of international financial markets, taking into account:
  - a) central bank understandings on lender of last resort;
  - b) deposit insurance facilities in various countries;
  - c) the possible unraveling of the interbank lending market, especially for those banks, branches, and subs operating mainly in the Euro-currency markets.
- 2) Our assessment of any likely impact on the foreign exchange markets. Will impact be temporary and manageable, or longer lasting.
- 3) What can the U.S. do to offer cooperation in avoiding any possible risks?
  - a) promise to step up our intervention in support of impacted European currencies?
  - b) point out that present intervention policy envisages intervention to counteract exogenously derived instability?
  - c) offer to increase swap line, institute new ones, increase GAB?
  - d) offer to be lender of last resort for all US branches and subs in European countries which might be affected, as well as for European branches and subs in U.S.?

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